

TWOCO PETROLEUMS LTD.

MANAGEMENT DISCUSSION & ANALYSIS (MD&A) FORM 51-102F1

FOR THE PERIOD ENDED JUNE 30, 2005

This management's discussion and analysis ("**MD&A**") should be read in conjunction with the unaudited interim consolidated financial statements for Twoco Petroleum Ltd., ("**Twoco** or the "**Company**"), and related notes for the six month period ended June 30, 2005 and Twoco's audited consolidated financial statements, notes thereto, and MD&A for the period ended December 31, 2004. Twoco has changed the ending date of its financial year from December 30 to December 31, commencing with the twelve month period ending December 31, 2004. The financial data presented below has been prepared in accordance with Canadian generally accepted accounting principles ("**GAAP**"). Additional information with respect to Twoco can be found on SEDAR at www.sedar.com. The reporting and measurement currency is the Canadian dollar.

BOE Presentation

Barrels of oil equivalent ("**boe**") may be misleading, particularly if used in isolation. A boe conversion ratio of 6 thousand cubic feet ("**mcf**"): 1 barrel ("**bbl**") is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Advisory Regarding Forward Looking Statements

This MD&A contains forward-looking statements. Forward-looking statements are based on current expectations and assumptions that involve a number of risks and uncertainties, certain of which are beyond Twoco's control and could cause actual events or results to differ materially from those reflected in the MD&A. Forward-looking statements are based on the estimates and opinions of Twoco's management at the time the statements were made. Twoco assumes no obligation to update forward-looking statements should circumstances or management's estimates change. In addition, the reader is cautioned that historical results are not necessarily indicative of future performance.

Non-GAAP Financial Measurements

This document contains the terms "cash flow" and "operating netbacks", which do not have a standardized meaning prescribed by GAAP and therefore may not be comparable with the calculation of similar measures by other companies. The term "cash flow", which is expressed before changes in non-cash working capital, and the term "operating netbacks" are used by the Company to analyze operating performance, leverage and liquidity. The reconciliation between net earnings and cash flow from operations can be found in the consolidated statements of cash flows in the unaudited consolidated financial statements. Operating netbacks are determined by deducting royalties, operating and transportation expenses and general and administrative expenses from petroleum and natural gas sales revenue.

This MD&A is dated as of August 29, 2005 except where otherwise stated.

Petroleum and Natural Gas Sales (Volumes)

	Quarter Ended		Six Months Ended	
	June 30, 2005	June 29, 2004	June 30, 2005	June 29, 2004
Natural gas (mcf/d)	3,525	2,111	3,446	2,095
Oil and NGL's (bbls/d)	1		1	
Total (boe/d)	589	352	575	349

The increase in petroleum and natural gas sales (volumes) for both of the comparable quarterly and six month periods ending June 30, 2005 is a result of production added by the Company through drilling and optimization activities. Average daily sales for the quarter ended June 30, 2005 rose to 589 boe/d as compared to 352 boe/d in the comparative quarter of 2004. Total wellhead production for the quarter ended June 30, 2005 averaged 645 boe/d.

Petroleum and Natural Gas Sales (\$)

	Quarter Ended		Six Months Ended	
	June 30, 2005	June 29, 2004	June 30, 2005	June 29, 2004
Natural Gas Sales (\$)	2,388,460	1,323,995	4,516,130	2,481,925
\$/mcf	7.45	6.93	7.24	6.54
Oil and NGL Sales (\$)	6,855	4,921	12,715	4,921
\$/barrel	55.73	43.47	51.06	43.47
Total Sales (\$)	2,395,315	1,328,916	4,528,845	2,486,846

Petroleum and natural gas ("P&NG") sales increased to \$2,395,315 for the quarter ended June 30, 2005 from \$1,328,916 for the quarter ended June 29, 2004 and to \$4,528,845 for the six months ended June 30, 2005 from \$2,486,846 for the six months ended June 29, 2004. This represents an increase from the comparative periods in 2004 of 80% for the quarter and 82% for the six months.

Royalties

	Quarter Ended		Six Months Ended	
	June 30, 2005	June 29, 2004	June 30, 2005	June 29, 2004
Crown (\$)	466,477	223,251	904,062	464,930
Freehold, GORR (\$)	30,870	25,948	56,813	49,041
ARTC (\$)	(116,562)	(55,810)	(225,512)	(116,229)
Total royalties (\$)	380,785	193,389	735,363	397,742

Total royalties excluding ARTC were \$960,875 for the six months ended June 30, 2005 versus \$513,971 for the same period last year. The increase in royalties is consistent with the increase in natural gas sales for the six months ended June 30, 2005.

Average Royalty Rate (average % of gross P&NG sales)

	Quarter Ended		Six Months Ended	
	June 30, 2005	June 29, 2004	June 30, 2005	June 29, 2004
Crown	19	17	20	19
Freehold, GORR	1	2	1	2
ARTC	(5)	(4)	(5)	(5)
Total royalties	16	15	16	16

Royalties, excluding ARTC, as a percentage of gross sales were 20.8% in the quarter ended June 30, 2005 as compared to 18.8% in the quarter ended June 29, 2004. This increased royalty rate is a result of a higher crown royalty rate being applied as a result of increased average productivity being realized from the wells.

Operating Expense

	Quarter Ended		Six Months Ended	
	June 30, 2005	June 29, 2004	June 30, 2005	June 29, 2004
Gross Production expense (\$)	215,135	120,688	405,309	241,858
Overhead recoveries (\$)	(20,102)	(10,581)	(35,393)	(22,260)
Net Production expense (\$)	195,033	110,107	369,916	219,598
Net Production expense (\$/boe)	3.64	3.44	3.55	3.48

Total operating expense increased by 77% to \$195,033 for the quarter ended June 30, 2005 as compared to \$110,107 in the comparative quarter of 2004. This increase can be attributed to increased production in the current quarter. Operating expense averaged \$3.64 per boe for the quarter ended June 30, 2005 as compared to \$3.44 per boe for the quarter ended June 29, 2004. Both of these unit operating costs are viewed as very favourable. It is Twoco's goal to maintain these excellent operating costs by continued detailed monitoring of ongoing costs and operating our Company production wherever possible.

Transportation Expense

	Quarter Ended		Six Months Ended	
	June 30, 2005	June 29, 2004	June 30, 2005	June 29, 2004
Transportation expense (\$)	84,473	49,762	161,744	95,753
Transportation expense (\$/boe)	1.58	1.55	1.55	1.52

Total transportation expense increased by 70% to \$84,473 for the quarter ended June 30, 2005 as compared to \$49,762 for the quarter ended June 29, 2004. This increase can be attributed to increased sales in the current quarter. Transportation expense averaged \$1.58 per boe for the quarter ended June 30, 2005 as compared to \$1.55 per boe for the quarter ended June 29, 2004.

Operating Netback

	Quarter Ended		Six Months Ended	
	June 30, 2005	June 29, 2004	June 30, 2005	June 29, 2004
Sales price (\$/boe)	44.70	41.58	43.46	39.24
Royalties excl. ARTC (\$/boe)	9.28	8.30	9.22	8.65
Operating and transportation expense (\$/boe)	5.22	4.99	5.10	4.99
Operating netback (\$/boe)	30.20	28.29	29.14	25.60

Twoco's operating netback increased 7% to \$30.20 per boe in the quarter ended June 30, 2005 as compared to \$28.29 per boe realized in the quarter ended June 29, 2004. In spite of minor increases, on a per boe basis, for royalty, operating and transportation expenses the Company realized a higher per boe netback due to the increase in sales prices.

General and Administrative Expense

	Quarter Ended		Six Months Ended	
	June 30, 2005	June 29, 2004	June 30, 2005	June 29, 2004
Gross G&A expense (\$)	148,322	146,166	419,615	309,684
Overhead recoveries (\$)	(60,237)	(25,653)	(97,816)	(40,630)
Capitalized G&A (\$)	(58,809)	-	(121,793)	-
Net G&A expense (\$)	29,276	120,513	200,006	269,054
Net G&A expense (\$/boe)	0.55	3.74	1.92	4.21

Twoco's net G&A expense decreased to \$29,276 in the quarter ended June 30, 2005 from \$120,513 in the quarter ended June 29, 2004. G&A costs, on a per boe basis, decreased in the current quarter as compared to the comparative quarter in 2004 due to the combination of increased production levels and overhead recoveries as well as adopting the practise of capitalizing certain G&A expenses.

Interest Expense

In the quarter ended June 30, 2005, interest expense decreased to \$61,551 from \$68,090 in the quarter ended June 29, 2004. Substantially all of the interest expense incurred in 2005 and 2004 is attributable to the convertible debentures which Twoco issued in September 2003 to participating shareholders and which bear interest at the rate of 15% per annum.

Depletion, Amortization and Accretion

	Quarter Ended		Six Months Ended	
	June 30, 2005	June 29, 2004	June 30, 2005	June 29, 2004
Depletion expense (\$)	844,500	523,000	1,514,500	966,000
Amortization expense (\$)	4,795	4,060	9,303	6,780
Accretion expense (\$)	29,941	2,418	40,147	4,836
Total (\$)	879,236	529,478	1,563,950	977,616
Total (\$/boe)	16.41	16.53	15.01	15.48

In the quarter ended June 30, 2005, depletion, amortization and accretion (“DA&A”) expense increased to \$879,236 (\$16.41 per boe). Higher production volumes combined with increased capital expenditures being applied against December 31, 2004 reserves increased the total amount of DA&A expense.

Income Taxes

Substantial increases in revenue and production volumes during the quarter offset by increased capital expenditures has resulted in the Company not being cash taxable for the quarter ended June 30, 2005. The Company has no flow-through share expenditure obligations.

Cash Flow from Operations

	Quarter Ended June 30, 2005		Quarter Ended June 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	2,395,315	44.70	1,328,916	41.49
Processing revenue	53,931	1.02	40,704	1.27
Royalties, net of ARTC	(380,785)	(7.11)	(193,389)	(6.04)
Net Interest income (expense)	(30,690)	(0.57)	(44,829)	(1.40)
Operating and transportation	(279,506)	(5.22)	(159,869)	(4.99)
General and administrative	(29,276)	(0.55)	(120,513)	(3.77)
Current tax recovery (expense)	79,394	1.48	(80,557)	(2.51)
Cash flow from Operations	1,808,383	33.75	770,463	24.05

	Six Months Ended June 30, 2005		Six Months ended June 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)
Petroleum and natural gas revenue	4,528,845	43.46	2,486,846	39.37
Processing revenue	96,255	0.92	80,546	1.28
Royalties, net of ARTC	(735,363)	(7.06)	(397,742)	(6.30)
Net Interest income (expense)	(75,921)	(0.73)	(105,113)	(1.66)
Operating and transportation	(531,660)	(5.10)	(315,351)	(4.99)
General and administrative	(200,006)	(1.92)	(269,054)	(4.26)
Current tax recovery (expense)	-	-	(80,557)	(1.28)
Cash flow from Operations	3,082,150	29.57	1,399,575	22.16

In the quarter ended June 30, 2005, the Company generated cash flow from operating activities of \$1,808,383. This represents an increase of 135% versus the quarter ended June 29, 2004. In the six months ended June 30, 2005, the Company generated cash flow from operating activities of \$3,082,150. This represents an increase of 120% versus the six months ended June 29, 2004. These increases resulted from increased sales volumes, higher commodity prices and a reduction in G&A expenses.

Net Income and Cash Flow from Operations

	Quarter Ended June 30, 2005		Quarter Ended June 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	1,808,383	33.75	770,463	24.05
Less: Stock based compensation	(93,256)	(1.74)	(1,658)	(0.05)
DA&A expense	(879,236)	(16.41)	(529,478)	(16.53)
Future Income taxes	(324,000)	(6.05)	(40,349)	(1.26)
Net income	511,891	9.55	198,978	6.21

	Six Months Ended June 30, 2005		Six Months ended June 29, 2004	
	(\$)	(\$/boe)	(\$)	(\$/boe)
Cash flow from Operations	3,082,150	29.57	1,399,575	22.16
Less: Stock based compensation	(135,159)	(1.30)	(1,658)	(0.02)
DA&A expense	(1,563,950)	(15.00)	(977,616)	(15.48)
Future Income taxes	(452,000)	(4.34)	(32,749)	(0.52)
Net income	931,041	8.93	387,552	6.14

In the quarter ended June 30, 2005, the Company generated net income from operating activities of \$511,891. This represents an increase of 157% versus the quarter ended June 29, 2004. In the six months ended June 30, 2005, the Company generated net income from operating activities of \$931,041. This represents an increase of 140% versus the six months ended June 29, 2004. These increases resulted from sales growth.

Capital Expenditures

Twoco's total capital expenditures for the quarters and six months ended June 30, 2005 and June 29, 2004 are summarized as follows:

	Quarter Ended		Six Months Ended	
	June 30, 2005	June 29, 2004	June 30, 2005	June 29, 2004
Land & property acquisitions (\$)	1,069,297	439,621	1,725,265	662,703
Geological and geophysical (\$)	437,439	56,574	491,899	228,360
Drilling and completions (\$)	907,747	948,836	1,733,619	1,371,223
Facilities and equipment (\$)	583,684	191,582	1,168,845	293,930
Other (\$)	(61,840)	14,215	2,195	17,800
Total capital expenditures (\$)	2,936,327	1,650,828	5,121,823	2,574,016

Liquidity and Capital Resources

Twoco's working capital surplus at June 30, 2005 increased to \$3,800,037 from \$2,298,233 at December 31, 2004. Also, Twoco has a loan facility with HSBC Bank Canada. This facility includes a \$5,000,000 demand revolving loan at prime plus 0.50% per annum and a \$1,500,000 general lease line of credit. While the credit facility provides the Company added financial flexibility, no specific uses have been identified for the loan facilities at this time.

On an ongoing basis, Twoco will typically utilize three sources of funding to finance its capital expenditure program: internally generated cash flow from operations, debt where deemed appropriate and new equity issues if available on favourable terms. In addition, Twoco may adjust its capital expenditure program depending on the commodity price outlook and competitive nature of the Canadian oil and gas business.

As of June 30, 2005, Twoco has entered into a farm-in agreement that includes the shooting of seismic data prior to June 30, 2005 and the drilling of one earning well prior to September 30, 2005. As of this date, all capital expenditure commitments have been fulfilled.

2005 Capital Budget

Twoco has a \$13.5 million 2005 capital budget which reflects the anticipated drilling of 28 gross (21.2 net) wells in 2005. The majority of these wells will be drilled in Twoco's core areas of Andrew/Willingdon and Steele/Bolloque/Grassland, both of which are located Northeast of Edmonton, in Alberta. For the year to date Twoco has participated in the drilling of 24 gross (17.9 net) wells. In view of high commodity prices and opportunities identified by the Company it is anticipated that the capital budget will be increased.

Quarterly Results

The following table summarizes certain quarterly financial information relating to the Company.

Quarter Ended	Petroleum and Natural Gas Sales		Net Income (loss)			
	(\$)	(\$/share)		(\$)	(\$/share)	
		Basic	Diluted		Basic	Diluted
June 30, 2005	2,395,315	0.19	0.16	511,891	0.04	0.04
March 31, 2005	2,133,530	0.18	0.16	419,150	0.04	0.03
December 31, 2004	1,656,308	0.14	0.14	447,630	0.04	0.04
September 30, 2004	1,479,174	0.13	0.12	6,633	0.00	0.00

Summary of Quarterly Information

	Quarter Ended				
	2005 June 30		2005 Mar 31	2004 Dec 31	2004 Sept 30
	(\$)	(\$/boe)	(\$)	(\$)	(\$)
Revenue	2,395,315	44.70	2,133,530	1,656,308	1,479,174
Processing Revenue	53,931	1.02	42,324	81,362	29,038
Royalties, net of ARTC	(380,785)	(7.11)	(354,578)	(300,170)	(245,284)
Operating and Transportation	(279,506)	(5.22)	(252,154)	(250,809)	(227,125)
G&A Expense	(29,276)	(0.55)	(170,730)	(121,917)	(25,912)
Net Interest (Income) Expense	(30,690)	(0.57)	(45,231)	(84,726)	(3,741)
Current Tax Recovery (Expense)	79,394	1.48	(79,394)	46,900	(91,343)
Cash Flow from Operations	1,808,383	33.75	1,273,767	1,026,948	914,807

Outstanding Share Data

The following table sets forth the capitalization of Twoco as at August 29, 2005:

	Authorized	Outstanding as at August 29, 2005	Common Shares underlying Convertible Securities
Long Term Debt			
Convertible Debentures ⁽¹⁾	\$1,500,000	\$1,485,000	1,188,000
Share Capital			
Common Shares ⁽¹⁾	Unlimited	13,597,306	-
Stock Options ⁽²⁾	Not Applicable	1,323,000	1,323,000
Preferred Shares	Unlimited	Nil	-

Notes:

- (1) Twoco has reserved and set aside 1,200,000 Common Shares for the conversion of Convertible Debentures pursuant to the private placement whereby Twoco issued \$1,500,000 of Convertible Debentures. The Convertible Debentures are convertible into one Common Share for each \$1.25 per share of principal face value and mature September 30, 2005. To date, \$15,000 of Convertible Debentures have been converted into 12,000 Common Shares.
- (2) Twoco currently has outstanding under its stock option plan, options to purchase 610,000 Common Shares at an exercise price of \$1.25 per share, 20,000 Common Shares at an exercise price of \$1.75 per share, 280,000 Common Shares at an exercise price of \$2.20 per share, 20,000 Common Shares at an exercise price of \$2.80 per share, 218,000 Common Shares at an exercise price of \$3.00 per share and 175,000 Common Shares at an exercise price of \$3.75 per share.

Outlook

It is Twoco's intention to continue with the same growth plan and exploration philosophy as has been utilized to date.

Twoco has a \$13.5 million 2005 capital budget which reflects the anticipated drilling of 28 gross (21.2 net) wells in 2005. The majority of these wells will be drilled in Twoco's core areas of Andrew/Willingdon and Steele/Bolloque/Grassland, both of which are located Northeast of Edmonton, in Alberta. In view of high commodity prices and opportunities identified by the Company it is anticipated that the capital budget will be increased.

In the second quarter of 2005, Twoco participated in the drilling of two gross (0.7 net) wells. Of these two wells, one well was cased as a gas well and the remaining well was dry and abandoned ("D&A"). For the current year to date Twoco has participated in an aggressive drilling program that has resulted in the drilling of a total of 24 gross (17.9 net) wells that have resulted in 20 gross (14.9 net) wells being cased for potential gas production and 4 gross (3.0 net) wells being D&A. Of the 20 gross (14.9 net) wells that were cased for gas production, 7 gross (5.6 net) wells will be dual zone gas wells. Twoco is projecting that initial production from the gas wells should be realized in the third and fourth quarters of 2005 and the first quarter of 2006. It is anticipated that Twoco will participate in the drilling of approximately 11 additional gross (9.7 net) wells in

the remainder of 2005.

Twoco's strong balance sheet and expected increased cash flows from prospects currently being developed, along with the proven expertise of our technical team bodes well for the future growth of the Company.

Twoco's balance sheet as at June 30, 2005 reflects a working capital position of \$3,800,037. Considering the likelihood that the convertible debentures will be converted to equity, cash flows from operations will be maintained by high commodity prices, and the formal banking arrangement that has been established, Twoco will be able to actively participate in numerous exploration and exploitation opportunities as they are identified.